

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

In the Matter of Application of PacifiCorp (U-901-E)  
for an Order Authorizing a General Rate Increase  
and Implementation of an Energy Cost Adjustment  
Clause and a Post Test-Year Adjustment  
Mechanism.

Application 05-11-022  
(Filed November 29, 2005)

Order Instituting Investigation on the Commission's  
Own Motion into the Rates, Operations, Practices,  
Service, and Facilities of PacifiCorp (U-901-E).

Investigation 06-03-002  
(Filed March 2, 2006)

**JOINT MOTION BY PACIFICORP AND DIVISION OF  
RATEPAYER ADVOCATES FOR ADOPTION OF  
SETTLEMENT AGREEMENT ON REVENUE  
REQUIREMENT ISSUES**

Diana L. Lee  
Staff Counsel  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94101  
Telephone: 415-703-4342  
Facsimile: 415-703-1981  
Email: [dil@cpuc.ca.gov](mailto:dil@cpuc.ca.gov)

Attorney for the Division of Ratepayer  
Advocates

GOODIN, MACBRIDE, SQUERI,  
RITCHIE & DAY, LLP  
Michael B. Day  
John L. Clark  
Joseph F. Wiedman  
505 Sansome Street, Suite 900  
San Francisco, CA 94111  
Telephone: (415) 392-7900  
Facsimile: (415) 398-4321  
Email: [mday@gmsr.com](mailto:mday@gmsr.com)  
Email: [jclark@gmsr.com](mailto:jclark@gmsr.com)  
Email: [jwiedman@gmsr.com](mailto:jwiedman@gmsr.com)

Attorneys for PacifiCorp

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Pursuant to Rule 51.1 of the Commission's Rules of Practice and Procedure, PacifiCorp and the Division of Ratepayer Advocates ("DRA"), collectively, the "Moving Parties," submit this joint motion for approval and adoption of the July 7, 2006, "Settlement Agreement Between PacifiCorp and Division of Ratepayer Advocates on Revenue Requirement Issues" ("Settlement Agreement"), which is attached hereto as Exhibit A.

The Settlement Agreement represents a compromise by the Moving Parties on all issues in this proceeding relating to test year revenues, expenses, ratebase, capital structure, return on equity, multi-state cost allocations, and attrition year mechanisms.

The Moving Parties respectfully submit that the Settlement Agreement is reasonable in light of the whole record, consistent with the law, and in the public interest.

## **I. BACKGROUND**

PacifiCorp is an investor-owned public utility engaged in the business of generating, transmitting, and distributing electric energy in portions of northern California and in the states of Oregon, Utah, Washington, Idaho, and Wyoming. PacifiCorp provides retail electric service in California to customers in Siskiyou, Modoc, Del Norte, and Shasta counties.

On November 29, 2005, PacifiCorp filed its application in this proceeding seeking a general increase in rates and authority to implement an energy cost adjustment mechanism (“ECAC”) and a post-test year adjustment mechanism (“PTAM”). The application requested an overall revenue requirement increase of \$11.0 million to provide PacifiCorp with a reasonable opportunity to earn a return on equity of 11.8%, with an effective date of January 1, 2007. The amount of the increase requested by PacifiCorp assumed the impending expiration of certain long-term contracts with water pumping customers in the Klamath River Basin and an intervening, pre-test year transition of those customers to generally-applicable irrigation rates.

Protests to the application were filed by DRA and the Klamath Basin Water Users Protective Association or Klamath Water Users Association (“KWUA”). In addition, appearances were entered by several other parties including, among others, the Bureau of Reclamation and U.S. Fish and Wildlife Service of the U.S. Department of Interior, the County of Siskiyou, the California Farm Bureau Federation, the Western

Manufactured Housing Community Association, Roseburg Forest Products, the Hoopa Valley Tribe, the Pacific Coast Federation of Fishermen's Association, and the Oregon Natural Resources Council.

A prehearing conference was held on January 30, 2006, followed by the issuance of a scoping ruling on February 6, 2006, which identified the following issues for resolution in this proceeding: (1) irrigation rates within the Klamath Irrigation Project; (2) test year revenues, expenses, ratebase, capital structure, return on equity, and rate design; (3) master meter rates and master meter bill calculations; (4) multi-state cost allocations; and (5) attrition year mechanisms.

By D.06-04-034, the Commission determined, as an initial matter, that the Klamath River Basin contract customers should be transitioned to generally-applicable irrigation rates over a four-year period, rather than on the flash-cut basis assumed by PacifiCorp's application. In response to that determination, PacifiCorp submitted, on May 5, 2006, "Supplemental Testimony and Exhibits" revising the revenue requirement increase that would be needed to achieve PacifiCorp's target return on equity and, also, to make other, offsetting adjustments that were appropriate or required as the result of the acquisition of PacifiCorp by MidAmerican Energy Holdings Company, as approved by D.06-02-033. The revisions identified in the Supplemental Testimony and Exhibits increased the revenue requirement justified by the showing in the application from \$11.0 million to \$12.8 million.

In accordance with the adopted schedule in this proceeding, DRA submitted, in June 2006, its Report on Results of Examination and Report on the Results

of Operations for PacifiCorp's General Rate Case. In those reports, DRA recommended a revenue requirement increase of \$3.4 million based on a number of adjustments to PacifiCorp's requested revenue requirement. No other party submitted any recommendations or testimony on PacifiCorp's results of operations.<sup>1</sup>

On June 29, 2006, PacifiCorp and DRA met to address the issues raised by DRA's reports and, following discussions, reached a verbal agreement resolving all revenue requirement issues, including test year revenues, expenses, ratebase, capital structure, return on equity, multi-state cost allocations, and attrition year mechanisms.

All other parties were notified late in the afternoon of that same day that PacifiCorp and DRA had reached a settlement on these issues and were invited to participate in a settlement conference to be held on July 7, 2006, in San Francisco. The parties were informed that a conference bridge was being set up so that they could participate by telephone if they were unable to attend in person. Parties participating in the settlement conference included: PacifiCorp, the Division of Ratepayer Advocates, California Farm Bureau Federation, County of Siskiyou, Klamath Water Users Association, Western Manufactured Housing Community Association. Following the settlement conference, PacifiCorp and DRA finalized and signed the Settlement Agreement.

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<sup>1</sup> DRA served its Report on Marginal Cost, Revenue Allocation and Rate Design on June 23, 2006, as did the Department of Interior and the Klamath Water Users Association. Issues related to marginal cost, rate design and revenue allocation are not resolved by this proposed settlement.

## **II. SUMMARY OF SETTLEMENT AGREEMENT**

As noted above, the Settlement Agreement constitutes a compromise on all issues in this proceeding relating to test year revenues, expenses, ratebase, capital structure, return on equity, multi-state cost allocations, and attrition year mechanisms. Pursuant to the Settlement Agreement, PacifiCorp's revenue requirement increase would be \$7.3 million or approximately 57% of the \$12.8 million amount supported by PacifiCorp's Supplemental Testimony and Exhibits. The increase is designed to produce an overall return on adjusted ratebase at PacifiCorp's currently-authorized level of 8.53%, assuming a return on equity of 10.6% and a capital structure composed of 50% equity, 1% preferred stock, and 49% debt, which approximates PacifiCorp's actual capital structure.

The single largest adjustment agreed to by the Moving Parties is the rate of return, which reflects a decrease from PacifiCorp's proposed return on equity of 11.8% and a 52.8% equity ratio. This adjustment reduces the revenue requirement by \$2.7 million, which is about 60% of the adjustment initially proposed by DRA.

A large adjustment, \$800,000, results from a compromise on reductions to electric plant in service. The total plant-in-service adjustment originally proposed by DRA was \$3.3 million. However, a portion of this proposed adjustment was based on the removal of PacifiCorp's Lakeside power plant, which is under construction and scheduled to go into commercial operation in the Spring of 2007, well within the test year. PacifiCorp foresees no significant delays in bringing this plant on line.

Accordingly, DRA's proposed adjustment was rejected by PacifiCorp, but the Moving Parties reached an overall compromise resulting in an \$800,000 adjustment.

Other proposed adjustments were accepted by PacifiCorp as appropriate or, in several cases, were accepted, in whole or in part, in order to reach a compromise on the revenue requirement. These include: capitalization of Lakeside overhaul expenses, which results in a \$29,000 adjustment; a \$99,000 adjustment to miscellaneous distribution and transmission costs; a \$127,000 reduction in pension and benefits expenses; removal of the Cottonwood coal lease from plant held for future use, which is a net \$18,000 reduction; a \$47,000 reduction to reflect a change in treatment of fuel stock costs, which PacifiCorp had included in ratebase but which, instead, will be recovered through the ECAC; a \$49,000 weatherization program adjustment; a \$132,000 adjustment to reflect potential reductions of corporate overhead costs as agreed to in connection with the Commission's approval of the acquisition of PacifiCorp by MEHC; a \$53,000 capital stock expense adjustment; and adjustments in the amount of \$200,000 that are attributed to PacifiCorp's rebasing initiative.

In addition, PacifiCorp proposed, as part of the over-all compromise, a \$1.2 million reduction in revenue requirement to provide PacifiCorp with an incentive to identify and implement efficiency improvements.

A comparison table summarizing PacifiCorp's and DRA's positions on results of operations is set forth in Appendix A of the Settlement Agreement.

Aside from reaching a compromise on the foregoing test-year revenue requirement items, PacifiCorp and DRA agree that PacifiCorp, like other electric public

utilities should be permitted to implement an ECAC mechanism and a PTAM. In PacifiCorp's view, the compromises reached on these proposals played a key part in allowing the settlement to be reached as they will provide PacifiCorp with means to a continued opportunity to earn its authorized return and maintain its credit rating during the present, multi-year period of infrastructure and resource development.

Under the agreed-upon ECAC mechanism, rates for net power costs will be unbundled from other rates, and net power costs will be collected through a billing factor multiplied by customers' monthly energy usage. Energy costs and revenues subject to the ECAC will be accounted for in a balancing account, with applicable billing factors and any amortization factors for excess or under collections being established annually. The ECAC is based on the proposal set forth in PacifiCorp's application Exhibits PPL/500 and PPL/1300, with the adjustments recommended by DRA in Chapter 4 of its Report on the Results of Operations. The Moving Parties note, however, that DRA's concerns with PacifiCorp's GRID simulation model have been resolved and DRA is satisfied that PacificCorp's continued use of the model is acceptable.

The Moving Parties agree that PacifiCorp's PTAM proposal will not be adopted. Instead, PacifiCorp will be permitted to implement the post test year adjustment mechanism described in Chapter 11 of DRA's Report on the Results of Operations, with three changes: (i) the attrition factor for 2008 will be based the September 2007 Global Insight "U.S. Economic Outlook" forecast of CPI for 2008, with an off-setting productivity factor of 0.5%; (ii) the attrition factor for 2009 will be based the September 2008 Global Insight "U.S. Economic Outlook" forecast of CPI for 2009, also with an off-



setting productivity factor of 0.5%; and (iii) PacifiCorp will be permitted to obtain recovery of costs relating to major plant additions that are placed in service after January 1, 2008. For purposes of the PTAM, a “major plant addition” will be deemed to include any capital addition to plant-in-service that exceeds \$50 million on a total-company basis.

Finally, the Moving Parties have agreed to a method for recovery of the shortfall in PacifiCorp’s revenue requirement that will result from the transition of Klamath Project Customers to generally-applicable rates (the shortfall occurs beginning April 2006 through the effective date of the new rates in this case and is projected to be approximately \$2.4 million). Under this agreed-upon method, PacifiCorp will keep the additional revenues resulting from future transition period increases to the Project Customers and will not make any concomitant reductions in other customers’ rates. Effectively, PacifiCorp will forgo recovery of costs through the Commission-authorized Memorandum Account in return for keeping any additional revenue received from Project Customers pursuant to price changes occurring in accordance with the transition plan approved by D.06-04-034. Under this approach, PacifiCorp assumes the risk of load variability, but is willing to accept this risk in exchange for the administrative ease associated with this approach, which eliminates the need for continual tracking and auditing of the Memorandum Account. Appendix C to the Settlement Agreement illustrates how this approach is expected to work and shows an anticipated ending balance resulting in a roughly neutral outcome. PacifiCorp does, however, reserve the right to request recovery, through its generally-applicable tariff rates, of the amount of

any credits related to its California jurisdiction that are approved by the Commission to reflect alleged benefits resulting from the operations of Project Customers.

### **III. THE COMMISSION SHOULD APPROVE THE SETTLEMENT AGREEMENT**

The Commission's policy favoring settlements is well-established. As noted by the Commission, "The policy favoring settlements is intended to reduce the expense of litigation to ratepayers, conserve scarce Commission resources, and allow the Settling Parties to avoid the risk that a litigated resolution will produce unacceptable results."<sup>2</sup> Indeed, the potential efficiency benefits, alone, that would result from settling the instant proceeding are significant because, notwithstanding the relatively small size of PacifiCorp's California operations compared to its over-all operations, the efforts that must be undertaken by DRA and PacifiCorp to continue to fully litigate this rate case are similar to those that would be undertaken for other much larger (jurisdictionally-speaking) California electric public utilities; yet, the base of customers who, ultimately, must bear the cost of such litigation is very small.

Under the Commission's rules, a settlement such as that proposed here may be approved if it is "reasonable in light of the whole record, consistent with law, and in the public interest." Factors to be considered are whether the settlement reflects the relative risks and costs of litigation, whether it fairly and reasonably resolves the disputed issues and conserves public and private resources, and whether it falls within the realm of possible outcomes if the matter had gone to trial.

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<sup>2</sup> *Re Southern California Edison Co.* (1998) 78 CPUC 2d 507, 511.

The Moving Parties submit that the Settlement Agreement represents a fair compromise of the revenue requirement issues in this proceeding and fully satisfies the Commission's standard for settlement approval. Each of the factors considered supports approval of this settlement.

The settled revenue requirement falls well within the range of possible outcomes of litigation, being at the approximate mid-point between PacifiCorp's and DRA's proposals. Notably, the adopted return on equity is below the levels recently approved by D.05-12-043 for Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company, and the adopted capital structure includes a common equity component that is slightly lower, proportionally, than PacifiCorp's actual common equity ratio. Moreover, the combination of adopted adjustments on known items and the inclusion of a \$1.2 million adjustment for potential, unidentified, company-wide efficiency gains helps ensure that the result is fair and reasonable to ratepayers.

The adoption of an ECAC and the PTAM will benefit both PacifiCorp and its customers by providing more stability in revenue recovery and better matching between price signals and actual costs. This will enhance PacifiCorp's ability to plan for and provide adequate, safe, and reliable service to its California customers and will help minimize its costs of capital by providing investors with more certainty and less risk.

The Settlement Agreement is the result of arm's length negotiations between two well-qualified and supported parties, and represents significant compromises on behalf of their respective constituents. Moreover, the Settlement

Agreement will result in a substantial reduction of contested matters in the proceeding and will thereby save the parties considerable litigation costs. Yet, the Settlement Agreement does not overstep boundaries by purporting to resolve issues in which other parties have taken an active interest. In fact, PacifiCorp and DRA are the only parties who took active roles and expressed active positions on the revenue requirement issues. By enabling the Moving Parties to avoid further preparation and filing of rebuttal and other testimony, evidentiary hearings, and post-hearing briefing on the issues addressed in the Settlement Agreement, the settlement also has the benefit of facilitating and expediting the Commission's review and approval of the application, saving scarce Commission resources for other matters.

#### **IV. CONCLUSION**

For the reasons stated in this motion, DRA and PacifiCorp request the Commission approve and accept the Settlement Agreement as reasonable in light of the whole record, consistent with law, and in the public interest.

Dated: July 7, 2006

Respectfully submitted on behalf of the  
Moving Parties,

Diana L. Lee,  
Attorney for Division of Ratepayer  
Advocates

and

GOODIN, MACBRIDE, SQUERI,  
RITCHIE & DAY, LLP

By: /s/ Joseph F. Wiedman  
Joseph F. Wiedman

Attorneys for PacifiCorp

3219/002/X78970.v1

## Exhibit A

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

In the Matter of Application of PacifiCorp (U-901-E) for an Order Authorizing a General Rate Increase and Implementation of an Energy Cost Adjustment Clause and a Post Test-Year Adjustment Mechanism.

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**SETTLEMENT AGREEMENT BETWEEN PACIFICORP AND DIVISION OF  
RATEPAYER ADVOCATES ON REVENUE REQUIREMENT ISSUES**

**1. General**

1.1. The parties to this Settlement Agreement before the California Public Utilities

Commission ("Commission") are PacifiCorp and the Division of Ratepayer Advocates ("DRA"), collectively, the "Settling Parties." The Settling Parties, desiring to avoid the expense, inconvenience, and uncertainty attendant to litigation of various issues in this proceeding, have entered into this Settlement Agreement, which they now submit for approval by the Commission.

1.2. As this Settlement Agreement represents a compromise by them, the Settling Parties

have entered into this Settlement Agreement on the basis that its approval by the Commission not be construed as an admission or concession by any of the Settling Parties regarding any fact or matter of law in dispute in this proceeding or in any other proceeding before the Commission. Furthermore, the Settling Parties intend that the

approval of this Settlement Agreement by the Commission not be construed as a precedent or statement of policy of any kind except as it relates to the current and future proceedings addressed in this Settlement Agreement.

1.3. The Parties agree that this Settlement Agreement is an integrated agreement, so that, if the Commission rejects or modifies any portion of this Settlement Agreement, each of the Settling Parties has the right to withdraw, renegotiate this Settlement Agreement, and request other relief pursuant to Commission Rule 51.7.

## **2. Settlement Terms**

The Settling Parties agree that all issues in this proceeding relating to test year revenues, expenses, ratebase, capital structure, return on equity, multi-state cost allocations, and attrition year mechanisms shall be as follows:

### **2.1. Revenue Requirement**

In its application, PacifiCorp requested an increase of approximately \$11.0 million to its overall revenue requirement based on a 2007 Test Year. In “Supplemental Testimony and Exhibits” submitted by PacifiCorp in May 2006, this request was increased to approximately \$12.8 million in order to reflect the Commission’s approval, by D.06-04-034, of a transitional rate increase for Klamath Basin irrigation customers and also to reflect certain adjustments relating to the acquisition of PacifiCorp by MidAmerican Energy Holdings Company (“MEHC”), which was approved, subject to conditions, by D.06-02-033. In response to the application (as so supplemented), DRA submitted, in June 2006, its Report on Results of Examination and Report on the Results of Operations, in which DRA recommended a revenue requirement of \$3.4 million based on a number of adjustments to PacifiCorp’s requested revenue requirement. No other party filed testimony in the revenue requirement phase of this case.



2.1.1. The Settling Parties agree that PacifiCorp's requested 2007 Test Year revenue requirement for its California jurisdiction shall be adjusted as follows (the headings and descriptions of the adjustments shall not be construed as reflecting any agreement or commitment by either of the Settling Parties with respect to the stated rationale for, or propriety of, any such adjustment for any purpose other than reaching a compromise on PacifiCorp's overall revenue requirement in this proceeding):

2.1.1.1. Rate of Return Adjustment – PacifiCorp's requested revenue requirement shall be reduced by \$2.7 million to reflect changes in capital structure. For purposes of settlement, the rate of return on ratebase shall be maintained at its currently-approved level of 8.53%. This rate of return is based on an adopted return on equity of 10.6%, with preferred stock and long-term debt costs of 6.30% and 6.46%, respectively, and an assumed capital structure composed of 50% common equity, 1% preferred stock, and 49% long-term debt.

2.1.1.2. Generation Overhaul Expense Adjustment – PacifiCorp's requested revenue requirement shall be reduced by \$29,000 to reflect the capitalization of overhaul costs related to the Lakeside plant, which had been expensed by PacifiCorp in its original filing.

2.1.1.3. Power Delivery Programs Adjustment – PacifiCorp's requested revenue requirement shall be reduced by \$99,000 to reflect adjustments to certain miscellaneous distribution and transmission costs.

- 2.1.1.4. Pension Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$112,000 to reflect adjustments to pension costs, which recover its revised forecast of 2007 FAS 87 pension expense.
- 2.1.1.5. Benefits Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$15,000 to reflect adjustments to medical benefits expense.
- 2.1.1.6. Electric Plant in Service Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$800,000 to reflect adjustments to forecasted California distribution electric plant in service. However the Settling Parties agree that all other forecasted additions included in PacifiCorp’s original filing, including the portion of the Lakeside plant included in that filing, shall be included in ratebase.
- 2.1.1.7. Plant Held for Future Use Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$18,000 to reflect adjustments to plant held for future use.
- 2.1.1.8. Fuel Stock Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$47,000 to reflect an adjustment to exclude fuel stock inventories from the general ratebase and recover the estimated carrying costs of fuel stock through Net Power costs. The actual carrying costs shall be eligible for recovery in the ECAC, which is defined below in section 2.3.1.

- 2.1.1.9. Weatherization Program Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$49,000 to reflect the removal from ratebase of California-specific Weatherization Program costs.
- 2.1.1.10. MEHC Corporate Overhead Charge Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$132,000 to reflect the reductions of corporate overhead costs as specified in Commitment C11 in the Commission’s approval of the acquisition of PacifiCorp by MEHC.
- 2.1.1.11. Capital Stock Expense Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$53,000 to reflect the reversal of PacifiCorp’s adjustment to capital stock expense as shown on page 4.5 of PPL Exhibit 601.
- 2.1.1.12. Rebasing Initiative Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$197,000 to reflect an adjustment relating to labor-related savings associated with PacifiCorp’s rebasing initiative.
- 2.1.1.13. Miscellaneous Regulatory Asset Rebasing Initiative Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$3,000 to reflect adjustments for unamortized costs relating to PacifiCorp’s rebasing initiative.
- 2.1.1.14. Efficiency Improvement Adjustment – PacifiCorp’s requested revenue requirement shall be reduced by \$1.2 million to provide PacifiCorp with the incentive to identify and implement efficiency improvements.

2.1.2. Based on the foregoing adjustments, the adopted increase to PacifiCorp's 2007 Test Year revenue requirement shall be \$7.3 million. This amount shall be utilized for purposes of rate design and rate spread in this case. A comparison of PacifiCorp's and DRA's original revenue requirement proposals and the settlement revenue requirement is set forth in Appendix A.

2.1.3. The Settling Parties agree to support a schedule that would allow PacifiCorp to recover the adopted increase to its revenue requirement commencing on January 1, 2007.

## 2.2. Multi-State Allocations

All elements of this rate case, including the settlement of revenue requirement, ECAC and PTAM (see 2.3.2), shall be based on the Revised Protocol allocation methodology. In its next general rate case, PacifiCorp shall apply the same approach ordered by the Public Utility Commission of Oregon in Order No. 05-021 (January 12, 2005) with respect to the requirement that the filing include the Hybrid model allocation methodology as a comparison to the Revised Protocol allocation methodology.

## 2.3. Attrition Year Mechanisms

### 2.3.1. Energy Cost Adjustment Clause

The Settling Parties agree that PacifiCorp's proposed Energy Cost Adjustment Clause ("ECAC") mechanism shall be adopted as proposed by PacifiCorp in its application Exhibit PPL/500, Direct Testimony of Mark T. Widmer, and Exhibit PPL/1300, Direct Testimony of Michael B. Reid, but subject to the changes proposed by DRA in Chapter 4 of its Report on the Results of Operations. The relevant portions of the testimony are provided in Appendix B.

### 2.3.2. Post Test Year Adjustment Mechanism

The Settling Parties agree that DRA's alternative Post Test Year Adjustment Mechanism ("PTAM") proposed in Chapter 11 of its Report on the Results of Operations shall be adopted, but subject to the following changes: (i) the attrition factor for 2008 (filed October 15, 2007, effective January 1, 2008) shall be based on the September 2007 Global Insight "U.S. Economic Outlook" forecast of CPI for 2008 with an off-setting productivity factor of 0.5%; (ii) the attrition factor for 2009 (filed October 15, 2008, effective January 1, 2009) shall be based on the September 2008 Global Insight "U.S. Economic Outlook" forecast of CPI for 2009 with an off-setting productivity factor of 0.5%; and (iii) PacifiCorp shall be entitled to adjust its rates through the PTAM to recover the California-allocable portion of all reasonable costs related to any major plant addition made after January 1, 2008. For purposes of the PTAM, a "major plant addition" shall be deemed to include any capital addition to plant-in-service that exceeds \$50.0 million on a total-company basis. All rate changes under the PTAM shall be implemented by applying the overall PTAM percentage change as a uniform percentage change to all tariff rate elements of all rate schedules, excluding Schedules S-99, S-100, and proposed Schedule S-191.

### 2.3.3. Klamath Irrigation Shortfall Recovery

The Settling Parties agree that no adjustments shall be made to the generally-applicable tariff rates for any of PacifiCorp's established classes of service in order to off-set the transitional increases approved by D.06-04-034 to rates paid by "Project Customers," as defined in Appendix A of that decision. As part of

this settlement, based on the condition that Klamath irrigators continue to be served on Schedule PA-20 rates, the Settling Parties agree that the shortfall recovery method shall be in lieu of the recovery of the Memorandum Account authorized in D.06-04-034 and that PacifiCorp shall bear the full risk or benefit of any such under- or over-recovery of revenues. (A comparison of the amount in the Memorandum Account and its recovery through the transitional increases approved by D.06-04-034 is set forth in Appendix C.) Notwithstanding the foregoing, PacifiCorp shall be entitled to request recovery, through its generally-applicable tariff rates, of the amount of any credits related to its California jurisdiction that are approved by the Commission to reflect alleged benefits resulting from the operations of Project Customers.

#### 2.4. Other

The Settling Parties agree that, except as set forth herein, PacifiCorp's proposals in its application (as supplemented) relating to test year revenues, expenses, ratebase, capital structure, return on equity, multi-state cost allocations, and attrition year mechanisms shall be adopted without change.

### 3. Miscellaneous

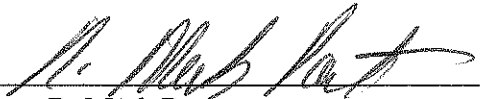
3.1. The Settling Parties agree that this Settlement Agreement is reasonable in light of the whole record, consistent with law, and in the public interest.

3.2. The Settling Parties agree to execute, or cause to be executed, any other documents and to take any other action as may be necessary, to effectively consummate this Settlement Agreement, and neither of the Settling Parties shall take any action in opposition to this Settlement Agreement.


3.3. The Settling Parties agree that no signatory to this Settlement Agreement or any member of DRA assumes any personal liability as a result of their agreement. The Settling Parties agree that no legal action may be brought by any Settling Party in any state or federal court, or any other forum, against any individual signatory representing the interests of DRA, attorneys representing DRA, or DRA itself related to this Settlement Agreement. All rights and remedies of the Settling Parties are limited to those available before the Commission.

IN WITNESS WHEREOF, the Settling Parties have executed this Settlement Agreement as of July 7, 2006.

**DIVISION OF RATEPAYER ADVOCATES**

By:   
R. Mark Pocta  
Division of Ratepayer Advocates  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102  
Tel: 415-703-2871

**PACIFICORP**

By:   
Andrea Kelly  
Vice President, Regulation  
PacifiCorp  
825 N.E. Multnomah, Suite 2000  
Portland, OR 97232  
Tel: 503-813-6043

## **APPENDIX A**

### **POSITIONS ON REVENUE REQUIREMENTS**



**Settlement Agreement : Appendix A**  
**PACIFICORP TEST YEAR 2007 GRC**  
**POSITIONS ON REVENUE REQUIREMENTS**

**CALIFORNIA JURISDICTION**

Description of Account Summary:		DRA Original Proposal	PacifiCorp	Settlement Proposal
1	Operating Revenues			
2	General Business Revenues	71,474,172	80,965,108	75,454,620
3	Interdepartmental	0	0	-
4	Special Sales	18,229,991	18,229,991	18,229,991
5	Other Operating Revenues	2,557,655	2,558,049	2,558,049
6	Total Operating Revenues	92,261,817	101,753,148	96,242,659
7				
8	Operating Expenses:			
9	Steam Production	13,431,889	13,464,355	13,480,630
10	Nuclear Production	0	0	-
11	Hydro Production	670,864	670,864	670,864
12	Other Power Supply	24,676,697	24,815,826	24,788,215
13	Transmission	2,161,244	2,161,244	2,161,244
14	Distribution	9,587,806	10,001,391	9,903,764
15	Customer Accounts	3,175,177	3,261,795	3,211,504
16	Customer Service	212,212	212,212	212,212
17	Sales	0	0	-
18	Administrative & General	4,257,627	5,463,649	3,810,561 (*)
19				
20	Total O & M Expenses	58,173,514	60,051,336	58,238,993
21				
22	Depreciation	9,762,623	10,350,238	10,102,998
23	Amortization Expense	1,528,108	1,538,991	1,538,991
24	Taxes Other Than Income	3,132,033	3,308,869	3,220,701
25	Income Taxes - Federal	4,719,782	6,656,676	5,466,872
26	Income Taxes - State	653,862	915,981	723,403
27	Income Taxes - Def Net	(20,311)	375,061	375,061
28	Investment Tax Credit Adj.	0	0	-
29	Misc Revenue & Expense	(44,724)	(44,724)	(44,724)
30				
31	Total Operating Expenses	19,731,372	23,101,091	21,383,300
32				
33	Operating Revenue for Return	14,356,931	18,600,721	16,620,366
34				
35	Rate Base:			
36	Electric Plant in Service	374,974,750	396,076,642	391,398,286
37	Plant Held for Future Use	18,161	440,306	18,161
38	Misc Deferred Debits	746,959	824,801	1,075,379
39	Elec Plant Acq Adj	1,291,112	1,291,112	1,291,112
40	Nuclear Fuel	0	0	-
41	Prepayments	388,641	392,287	392,287
42	Fuel Stock	0	1,157,153	-
43	Material & Supplies	1,812,979	1,812,065	1,812,065
44	Working Capital	815,992	829,446	822,024
45	Weatherization Loans	0	413,947	(0)
46	Miscellaneous Rate Base	131,944	131,944	131,944
47				
48	Total Electric Plant	380,180,539	403,369,702	396,941,257
49				
50	Rate Base Deductions:			
51	Accum Prov For Depr	(158,169,130)	(159,215,199)	(159,091,579)
52	Accum Prov For Amort	(11,477,255)	(11,556,985)	(11,556,985)
53	Accum Def Income Taxes	(28,545,655)	(28,843,363)	(28,843,363)
54	Unamortized ITC	(558,604)	(558,604)	(558,604)
55	Customer Adv for Const	(142,756)	(142,756)	(142,756)
56	Customer Service Deposits	0	0	-
57	Misc. Rate Base Deductions	(1,903,533)	(1,920,213)	(1,920,213)
58				
59	Total Rate Base Deductions	(200,796,933)	(202,237,120)	(202,113,500)
60				
61	Total Rate Base	179,383,606	201,132,582	194,827,757
62				
63	Return on Rate Base	8.003%	9.248%	8.531%

(\*) Note: For modeling ease, the Company has modeled in the efficiency improvements as a reduction to A&G expense. They will be achieved by a combination of reductions to OM&G & capital expenditures.

## **APPENDIX B**

### **EXCERPTS OF TESTIMONY AND DRA REPORT ON ECAC**

Docket No. 05-\_\_\_\_\_  
Exhibit No. PPL/500  
Witness: Mark T. Widmer

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

PACIFICORP

---

Direct Testimony of Mark T. Widmer

ECAC and Net Power Costs

November 2005

1 throughout the WECC because of the variability of hydro resources in our  
2 portfolio.

3 **Q. Please explain how net power costs will be recovered in California under the**  
4 **Company's proposed ECAC.**

5 A. Under the Company's proposal, rates for net power costs will be unbundled from  
6 other rates and collected through the Energy Cost Adjustment Clause Billing  
7 Factor (ECACBF). The ECACBF will be added or subtracted from each bill and  
8 will be equal to the ECACBF times the total kilowatt hours for each bill. The  
9 ECACBF will be effective for service on or after each January 1<sup>st</sup> Revision Date  
10 and continuing thereafter, until the next ECACBF becomes effective. The  
11 ECACBF is the algebraic sum of the Offset Rate and the balancing rate multiplied  
12 by the Franchise Fees and Uncollectible Accounts Expense Factor. The Offset  
13 Rate shall be equivalent to the estimated Total Company net power costs for a  
14 twelve month period as calculated by the Company's production dispatch model,  
15 allocated to California and divided by California kilowatthour sales for the test  
16 period. The Balancing Rate per kilowatt hour sold will be determined by dividing  
17 the estimated balance in the Energy Cost Adjustment Clause Account as of the  
18 January 1<sup>st</sup> Revision Date by the estimated California kilowatthour sales for the  
19 amortization period.

20 **Q. Please explain how monthly accruals to the Energy Cost Adjustment Account**  
21 **will be determined.**

22 A. Monthly accruals to the Energy Cost Adjustment Account will be determined in  
23 the following manner:

1                   1) A debit entry (credit entry, if negative) equal to the California-allocated  
2                   share of the difference between Total Company Projected net power costs used to  
3                   determine the Offset Rate adjusted by the ratio of California actual sales to  
4                   projected sales and Total Company Adjusted Actual Net Power Costs.

5                   2) A debit entry (credit entry, if negative) equal to the average of the  
6                   beginning and ending balance multiplied by the interest rate defined in my  
7                   following testimony.

8    **Q.    Please define Adjusted Actual Net Power costs.**

9    A.    Adjusted Actual Net Power Costs is the sum of the total Company amounts  
10           recorded in FERC Accounts: 501, 503 and 547 (Steam Production Fuel Expense)  
11           for coal, steam and natural gas purchased and or sold, 555 (Purchased Power), 565  
12           (Wheeling), 447 (Sales for Resale). These actual amounts would be further  
13           adjusted to; 1) remove actual costs consistent with the rate setting process so  
14           comparable costs are being used in the accrual calculation, 2) remove prior period  
15           accounting entries recorded during the accrual period that are not applicable to the  
16           current period, and 3) to include Commission-adopted disallowance adjustments  
17           from the most recent California rate case so comparable costs are being used in  
18           the accrual calculation. An example of an item 1 adjustment would be the  
19           removal of Bonneville Regional Credit costs because they are not applicable to  
20           California. An example of an item 2 adjustment would be the removal of fuel  
21           costs booked to the current period that are related to a historical period outside the  
22           measurement period. An example of an item 3 item adjustment would be the  
23           Commission adopted Sacramento Municipal Utility District (SMUD) wholesale

1 sales revenue imputation adjustment.

2 **Q. Have you prepared an illustration of the proposed mechanism?**

3 A. Yes. The illustration is shown on Exhibit PPL/505.

4 **Q. What interest rate does the Company recommend for the interest accrual**  
5 **calculation?**

6 A. We recommend that the interest rate to be applied to the Balancing Account be  
7 1/12 of the interest rate on Commercial Paper for the previous month, as  
8 published in the Federal Reserve Statistical Release, H. 15. In the event  
9 publication of the interest rate on Commercial Paper (prime, 3 months) is  
10 discontinued, interest will accrue at the rate of 1/12 of the most recent month's  
11 interest rate on Commercial Paper which most closely approximates the rate that  
12 was discontinued, and which is published in the Federal Reserve Statistical  
13 Release, H. 15, or its successor publication.

14 **Q. How often will ECAC applications for billing revisions be filed?**

15 A. Applications for billing revisions may be filed with the Commission annually on  
16 August 1<sup>st</sup>. The Revision Date for implementation of the new PCACBF will be  
17 January 1<sup>st</sup>. Application for the annual update to the Offset Rate will be made  
18 only if the change in net power costs for the upcoming twelve month period varies  
19 by +/-5 percent from the previously adopted forecast. When an annual application  
20 to adjust the offset rate is made, the filing will include a section on resource plan  
21 activity. Application for the annual update to the balancing rate to amortize any  
22 cumulative over- or under-collection balance will be made only if the change in  
23 the balancing rate varies by +/-5 percent from the previously adopted balancing

1 rate.

2 **Q. Is the mechanism designed to take into account all NPC components?**

3 A. Yes. As previously mentioned, the ECAC is designed to include the impact of  
4 cost changes for fuel, wheeling and purchase power expenses and wholesale  
5 electricity and gas sales, because all net power cost components can be affected by  
6 volatility and are interrelated. For example, high electric wholesale market prices  
7 relative to natural gas wholesale market prices can lead to the re-dispatch of the  
8 Company's gas thermal units in order to make wholesale sales and/or avoid  
9 higher-priced market purchases and higher fuel costs. If the mechanism covered  
10 only purchases and fuel expense, it would not provide a proper matching of costs  
11 and benefits.

12 **Q. Should accrued costs be subject to a prudence review?**

13 A. Yes. Costs and revenues related to existing contracts and resources that have  
14 previously been included in rates, however, should be exempt from a prudence  
15 review on a cost basis. Of course, the manner in which generation facilities were  
16 operated and contracts dispatched during the accrual period would be subject to  
17 review along with other new contracts.

18 **Q. How does the Company propose to allocate the sur-charges and sur-credits to**  
19 **customers?**

20 A. Mr. Reid describes the Company's proposal.

21 **Net Power Cost Results**

22 **Q. What are the proposed forecast normalized net power costs?**

23 A. The proposed net power costs for the 12 months ended December 31, 2007 are

Docket No. 05-\_\_\_\_\_  
Exhibit No. PPL/1300  
Witness: Michael B. Reid

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

PACIFICORP

---

Direct Testimony of Michael B. Reid

Price Design

November 2005



1 **USBR Customers**

2 **Q. Please identify the USBR customers.**

3 A. These are customers served under rates set in under a 1956 contract between the  
4 Company and the U.S. Bureau of Reclamation (USBR).

5 **Q. Please explain the proposed rate design for USBR customers.**

6 A. The current special contract with USBR and other irrigation customers in the Klamath  
7 River Basin will expire in April 2006, prior to the 2006 irrigation season. At that time,  
8 these customers, who have been paying fixed prices over the previous 50 years under this  
9 contract, would be migrated to the appropriate standard tariff service. For this case,  
10 consistent with the USBR contract timeframe, the billing determinants, including present  
11 and proposed forecast revenues, show these USBR customers receiving service under  
12 standard tariff Schedule PA-20. Bill impacts for Schedule PA-20 customers are provided  
13 under Exhibit PPL/1305.

14 **Energy Cost Adjustment Clause**

15 **Q. Is the ECAC mechanism described in Mr. Widmer's testimony incorporated into**  
16 **the Company's proposed rates?**

17 A. Yes. Exhibit PPL/1302 includes a new Schedule ECAC-94 Energy Cost Adjustment  
18 Clause Tariff Rate Rider. The total revenues related to the ECAC mechanism described  
19 by Mr. Widmer are allocated to each rate schedule on an equal cents per kWh basis.  
20 ECAC revenues are included in the generation total of the functionalized revenue  
21 requirement for each rate schedule. The associated rates have been unbundled and are  
22 shown in Schedule ECAC-94. These charges are applied in addition to standard tariff  
23 service rates. Schedule ECAC-94 will be adjusted annually due to changes in costs, as

1 described in Mr. Widmer's testimony.

2 **Q. Please explain Exhibit PPL/1306.**

3 A. Exhibit PPL/1306 details the Company's proposal to implement the ECAC mechanism  
4 described in Mr. Widmer's testimony. As shown on Line 36 of Mr. Widmer's  
5 Exhibit PPL/505, the Year 1 Energy Cost Adjustment Clause Billing Factor (ECACBF) is  
6 calculated at 15.31 mills per kWh. ECAC revenues are allocated to each rate schedule by  
7 multiplying the total forecast kWh in the test period by the ECACBF.

8 Mr. Widmer's testimony explains that the costs that contribute to the calculation of  
9 the ECACBF are directly related to the total Company amounts recorded in Account  
10 numbers: 501, 503, 547, 555, 565 and 447. The total ECAC revenues for each rate  
11 schedule are therefore allocated between demand and energy for the generation and  
12 transmission functions according to the allocation among functionalized components of  
13 amounts resulting from each of these accounts in the Company's Results of Operations.  
14 Consistent with preparation of the Results of Operations, in order to allocate between  
15 demand and energy for each function, amounts allocated to accounts based on the PITA  
16 SE factor are attributed 100 percent to energy, while amounts based on the PITA SG or  
17 SSGC factors are attributed 75 percent to demand and 25 percent to energy. Demand and  
18 energy rates for each rate schedule are calculated by dividing the appropriate ECAC  
19 revenue for each function by its corresponding billing quantities, rounding demand rates  
20 to the nearest \$0.05 and adjusting to account for discounts to primary voltage customers.

21 Finally, the total ECAC revenues calculated through this mechanism for the  
22 generation and transmission functions are counted toward the generation and transmission

1 revenue requirements provided by Mr. Paice for each schedule when designing changes to  
2 base rates as described above.

3 **Other**

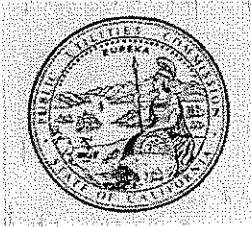
4 **Q. Does the Company have any other proposed tariff changes?**

5 A. Yes. In compliance with AB 1890, the Company filed functionalized rates that were  
6 approved by the Commission in 1997. As part of that filing, funding for DSM programs  
7 such as Energy FinAnswer or the Residential CFL program that had previously or have  
8 subsequently been approved by the Commission was built into rates in the functionalized  
9 component identified in tariffs as "Public Purpose." Other elements of this component,  
10 as identified in Exhibit PPL/1304, include charges and credits related to the Schedule S-  
11 99 Surcharge to Fund Public Utilities Commission Reimbursement Fee, the Schedule S-  
12 100 Surcharge to Fund Residential California Alternative Rates for Energy (CARE), and  
13 a charge related to recovering franchise fees allocated to the generation function. The  
14 Company is proposing a new tariff, Schedule S-191 Surcharge to Fund Public Purpose  
15 Programs, independently identifying DSM related charges already included in the Public  
16 Purpose functionalized component. This will allow separate tracking of these revenues.  
17 As shown in Exhibit PPL/1304, the Company is not proposing to change any rates to be  
18 included on this tariff in this proceeding.

19 **Q. Please explain Exhibit PPL/1304.**

20 A. As referenced earlier, Exhibit PPL/1304 details the billing determinants used in preparing  
21 the pricing proposals in this case. It shows billing quantities and prices at present rates  
22 and proposed rates.

Application	:	<u>A.05-11-022</u>
Exhibit Number	:	_____
Commissioner	:	<u>Brown</u>
Admin. Law Judges	:	<u>Galvin</u>
Witnesses	:	<u>Various</u>



**DIVISION OF RATEPAYER ADVOCATES  
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**Report on the Results of Operations  
for  
PacifiCorp  
General Rate Case  
Test Year 2007**

San Francisco, California  
June 16, 2006

1 forward price curve ("FPC") of September 2005, which was input for the GRID  
2 simulation that was the basis for the net power costs PacifiCorp used in its  
3 Application, the Company also supplied DRA with two later FPCs – one from  
4 December 2005 and one from March 2006, which are the basis for current rate cases  
5 in other states.

6 The results of these simulations were analyzed and compared. Total company  
7 net power costs varied by less than 1.5% for these different FPCs. The results were  
8 counterintuitive, however, as the net power cost increased even as the price of gas  
9 declined. A sensitivity test was run, keeping all input variables constant compared to  
10 the base run except for universally lower values for the price of gas. The result was a  
11 \$14 million total company increase in net power costs. The company claims this to be  
12 mainly the result of "gas swaps" (hedging the market), but with the swaps removed,  
13 the result does not show a decrease in net power costs, even with the substantially  
14 lower gas purchase expense. This apparent anomaly should be trued up annually by  
15 the Energy Cost Adjustment Clause (ECAC - see the following section) balancing  
16 account.

17 However, whether or not an ECAC is authorized, the company should be  
18 required to either modify the model or clarify its behavior. This may be accomplished  
19 by filing supplemental testimony, satisfactory to DRA, which compares several runs  
20 with various inputs and outputs illustrating how the net power cost varies with the  
21 various inputs, together with a textual description of the results and causative factors,  
22 and explanations of any apparent anomalies.

23 Based on its review, and with the reservation noted in the previous paragraph,  
24 DRA accepts the net power costs forecasted by the Company for the 2007 test year.

## 25 **2. Energy Cost Adjustment Clause (ECAC)**

26 DRA reviewed PacifiCorp's proposal to establish an Energy Cost Adjustment  
27 Clause (ECAC), which is a balancing account to allow rate relief to the Company on  
28 an annual basis when fuel prices fluctuate significantly.

1           The company's proposal includes several features which DRA finds  
2 appropriate. They include the requirement for the company to make an annual filing  
3 if rate relief is sought, allocation to California customers on a KWh basis, and a  
4 restriction limiting revision of the offset rate to years when the change in net power  
5 costs exceeds 5%. DRA recommends that the company be given the option to waive  
6 filing an application to revise the offset rate, even if the change is greater than 5%.  
7 This waiver should be limited to a single year, however, so that the true-up does not  
8 result in a burdensome change in rates. To monitor its purchase power procurement  
9 practices, PacifiCorp should be required to provide the Commission with purchase  
10 power contracts that exceed 1% of its total purchase power load. Also, the ECAC  
11 balancing account should be subject to an audit at the time when PacifiCorp submits a  
12 filing for amortizing its under or overcollection, or to change the offset rate.

13           Based on its review, and with the modifications described above, DRA finds  
14 the company's ECAC proposal acceptable.

## **APPENDIX C**

### **KLAMATH SHORTFALL RECOVERY**

3219/001/X78892.v1

**Klamath Deferred Shortfall  
Recovery at Current Rates**

<u>Irrigator Rate Changes</u>	<u>Rate</u>	<u>Increase</u>	<u>Amortization</u>	<u>Interest</u>	<u>Unamortized Bal.</u>
January 1 Balance					2,400,000
				17,060	2,417,060
				17,181	2,434,241
				17,303	2,451,545
April 2007 increase	0.0400	508,761	42,396.72	17,276	2,426,424
- 40 mills			42,396.72	17,097	2,401,124
			42,396.72	16,917	2,375,645
			42,396.72	16,736	2,349,984
			42,396.72	16,554	2,324,141
			42,396.72	16,370	2,298,115
			42,396.72	16,185	2,271,903
			42,396.72	15,999	2,245,505
			42,396.72	15,811	2,218,919
			42,396.72	15,622	2,192,145
			42,396.72	15,432	2,165,180
			42,396.72	15,240	2,138,023
April 2008 increase	0.0565	1,108,880	92,406.68	14,869	2,060,486
- 40 % discount			92,406.68	14,318	1,982,397
			92,406.68	13,763	1,903,754
			92,406.68	13,204	1,824,551
			92,406.68	12,641	1,744,786
			92,406.68	12,074	1,664,453
			92,406.68	11,503	1,583,550
			92,406.68	10,928	1,502,071
			92,406.68	10,349	1,420,013
			92,406.68	9,765	1,337,372
			92,406.68	9,178	1,254,143
			92,406.68	8,586	1,170,323
April 2009 - increase	0.0754	1,793,454	149,454.49	7,788	1,028,656
- 20 % discount			149,454.49	6,781	885,983
			149,454.49	5,767	742,295
			149,454.49	4,745	597,586
			149,454.49	3,717	451,848
			149,454.49	2,681	305,074
			149,454.49	1,637	157,257
			149,454.49	587	8,389
January 1 2010 GRC			149,454.49	(472)	(141,537)



**CERTIFICATE OF SERVICE**

I, Peggy Bruce, certify that I have on this 7th day of July 2006  
caused a copy of the foregoing

**JOINT MOTION BY PACIFICORP AND DIVISION OF RATEPAYER  
ADVOCATES FOR ADOPTION OF SETTLEMENT AGREEMENT ON  
REVENUE REQUIREMENT ISSUES**

to be served on the parties on the attached service list via Electronic Mail and

Hand Delivered to the parties below:

Commissioner Geoffrey F. Brown  
California Public Utilities Commission  
State Building, 5th Floor  
505 Van Ness Avenue  
San Francisco, California 94102

ALJ Michael J. Galvin  
California Public Utilities Commission  
State Building, 5th Floor  
505 Van Ness Avenue  
San Francisco, California 94102

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 7th day of July 2006 at San Francisco, California.

\_\_\_\_\_  
*/s/ Peggy Bruce*  
Peggy Bruce

## A0511022 SERVICE LIST

Last Update June 19, 2006

ROGER BERLINER  
BERLINER LAW PLLC  
roger@berlinerlawpllc.com

Diana L. Lee  
CALIF PUBLIC UTILITIES  
COMMISSION  
dil@cpuc.ca.gov

COURTNEY M. COATES  
HANSON, BRIDGETT  
ccoates@hansonbridgett.com

EDWARD G. POOLE  
ANDERSON & POOLE  
epoole@adplaw.com

JOSEPH F. WIEDMAN  
GOODIN MACBRIDE  
SQUERI RITCHIE &  
DAY,LLP  
jwiedman@gmssr.com

MICHAEL B. DAY  
GOODIN MACBRIDE  
SQUERI RITCHIE & DAY  
LLP  
mday@gmssr.com

WILLIAM F. GRADER, JR.  
PACIFIC COAST  
FEDERATION OF  
FISHERMEN'S  
zgrader@ifrfish.org

WILLIAM H. BOOTH  
LAW OFFICES OF WILLIAM  
H. BOOTH  
wbooth@booth-law.com

PETER W. HANSCHEN  
MORRISON & FOERSTER,  
LLP  
phansch@mofo.com

GRETT L. HURLEY  
HOOPA VALLEY TRIBE

STEVE PALMER  
U.S. DEPARTMENT OF THE  
INTERIOR

KAREN NORENE MILLS  
CALIFORNIA FARM  
BUREAU FEDERATION  
kmills@cfbf.com

FRANK J. DE MARCO  
SISKIYOU COUNTY  
COUNSEL  
fdemarco@co.siskiyou.ca.us

S. BRADLEY VAN CLEVE  
DAVISON VAN CLEVE, PC  
mail@dvclaw.com

STEVEN E. PEDERY  
OREGON NATURAL  
RESOURCES COUNCIL  
sp@onrc.org

GLEN H. SPAIN  
PCFF AND IFR  
FISH1IFR@aol.com

JAMES V. MCCARTHY  
OREGON NATURAL  
RESOURCES COUNCIL  
jm@onrc.org

THOMAS P. SCHLOSSER  
MORISSET, SCHLOSSER,  
JOZWIAK & MCGAW  
t.schlosser@msaj.com

JEFFERY K. LARSEN  
PACIFICORP  
jeff.larsen@pacificorp.com

RONALD VANDERLEEDEN  
SAN DIEGO GAS &  
ELECTRIC  
rvanderleeden@semprautilities.  
com

MICHAEL SHAMES  
UTILITY CONSUMERS'  
ACTION NETWORK  
mshames@ucan.org

JOHN CLARK  
GOODIN MACBRIDE  
SQUERI RITCHIE & DAY  
LLP  
jclark@gmssr.com

RICHARD MCCANN  
M.CUBED  
rmccann@umich.edu

RICHARD MCCANN, PH.D  
M. CUBED  
rmccann@umich.edu

PAUL SIMMONS  
SOMACH, SIMMONS &  
DUNN  
psimmons@lawssd.com

DOCUMENT CENTER  
PACIFICORP  
datarequest@pacificorp.com

GREG ADDINGTON  
KLAMATH WATER USERS  
ASSOCIATION  
greg@cvcwireless.net

DONALD SCHOENBECK  
RCS, INC.  
dws@r-c-s-inc.com

Donald J. Lafrenz  
CALIF PUBLIC UTILITIES  
COMMISSION  
dlf@cpuc.ca.gov

Laura Lei Strain  
CALIF PUBLIC UTILITIES  
COMMISSION  
lls@cpuc.ca.gov

Martin G. Lyons  
CALIF PUBLIC UTILITIES  
COMMISSION  
mgl@cpuc.ca.gov

Michael J. Galvin  
CALIF PUBLIC UTILITIES  
COMMISSION  
mfg@cpuc.ca.gov

Robert M. Pocta  
CALIF PUBLIC UTILITIES  
COMMISSION  
rmp@cpuc.ca.gov